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Board of Governors of
The Federal Reserve System
20th Street and Constitution Avenue NW
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Sirs: Re: Consumer Credit Card Debt

Last night I watched a re-airing of the PBS TV Documentary series Frontline titled "Secret History of the Credit Card" [see: http://www.pbs.org/wgbh/pages/frontline/shows/credit/]; it can be viewed on-line.

Frankly the Fed has a bigger crisis looming because of the predatory practices of the Banking Industry and its Consumer Credit Card businesses. This is in combination with the Congress's passing of a new Bankrupcy law that favored the same businesses at the expense of consumers.

Why should the purchase of back-to-school clothing for a family at "7.9% Guaranteed for Life -see the fine print" suddenly be raised to 25% when a phone bill payment is received late due to a postal holiday? This "Universal Default" clause is patently unfair, just as it would be if I bought a house with a 6% mortgage loan that might suddenly jump to 15% when the bank felt my risk level had increased.

The Fed can do its own survey: call 100 families at random, ask them what is their biggest revolving credit bill and how they plan to pay back the amount they owe. Ask them if they have any idea how long it would take, and what would be the total cost if they paid only "the minimum payment due" and never charged another purchase?

Ask those people to call you back with the sum of all fees paid on that account in the last year. You'll find that the unregulated fees and interest rates will make certain bank and card processing staff extremely rich but that the debt will never be paid back for most consumers that "revolve" their debt. This is the Achilles heel of our consumer economy.

Some suggestions: (1) Ask Chairman Bernanke to request a hearing in both Houses of Congress to discuss this matter with the goal of re-regulating this part of our economy.

(2) Suggest laws that increase the "minimum monthly payment" percentage [which was set low --at 2%-- as a marketing ploy to trap consumers] and require a calculation to be printed that says how long it will take and what it will cost "if you only pay the minimum and make no more charge purchases."

(3) Suggest laws that end the "Universal Default" scam that has made consumer credit enormously profitable while accelerating defaults and bankruptcies.

(4) Suggest laws that there be a staged response, when some event at some creditor lowers a consumer's FICO score [now triggering the Universal Default interest rate jump], including an educational letter, a suspension of credit card marketing, an offer of credit counseling and a decrease in credit limit [rather than the increase in limit that adds to fees and defaults].

(5) Suggest laws that cap consumer credit interest at, say, 3 points above prime rates, with severe penalties for usurious rates; and that cap credit card fees at some consumer-friendly limit.

(6) Suggest laws that form a branch in the U.S. Treasury Department Office of the Comptroller of the Currency specifically to handle consumer credit complaints and to act upon them in the benefit of the consumer, not in the interest of the banks' profits.

(7) Suggest a FASB requirement that corporate financial reports on Credit Card results separate out the "revolver" numbers from those tens of millions of card holders like you and me who pay off their balances every month, pay no interest and few if any fees. The "crisis numbers" with the "revolvers" will then be traceable over a time series per card issuer.

(8) Suggest a FASB requirement that financial reports on Credit Card issuers give details of the securitized debt those issuers sell to investors including interest rates and default rates on those securities.

Finally, in a related comment, the Fed approved a loan to JP Morgan Chase to purchase the assets and debt of Bear Stearns. That loan is at a very low discount rate. This is a travesty based on my reading of the following data.

According to the recent JPM 10K filing [http://yahoo.brand.edgar-online.com/fetchFilingFrameset.aspx?dcn=0001193125-08-043536&Type=HTML] in 2007 the Card Services segment of JPM had 155 million cards, $157 billion in managed loans, and $354 billion worth of purchases [averaging $1013 and $2284 per card]. Their net "fee" income alone was $3.0 bil vs 2006 $2.94 bil [avg. $19 per card], and the outrageous interest income was $12.1 bil vs. 11.8 bil [or about $78 average per card - - but how much per "revolver" card?]. Worrisome is that the credit card loan loss provision for 2007 was $5.7 bil vs 4.6 bil [or about $36 average per card], and their forecasts are of "higher charge-offs" with an expected 4.5% of credit card loans in early 2008 up to 5.00% late 2008. It seems to me if they lowered rates and fees, controlled credit limits, reduced marketing to high risk borrowers, and educated and counseled those at risk, then their losses would drop and the crisis of un-payable credit receivables would start to diminish.

Most worrisome to me is another Wall Street derivative that is out there that hardly anyone has heard of: according to that 10K, JPM has converted a portion of its credit card receivables into securities, which are sold to investors through Special Purpose Entities. "SPE's" in 2007 totalled $92.7 bil vs 86.4 bil. That averages out to about $600 per credit card account as an SPE with 4-5% likely to default this year. As they write: "SPEs are generally structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets." When will this next Wall Street "shoe drop"?

I urge you to act to make Congress aware that we are about to have a consumer credit collapse in this country if we don't re-visit consumer credit and rein in the credit card product excesses that have made bank and credit card executives rich while the consumer goes bankrupt.

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